

1962

MERCANTILE
STORES
COMPANY, INC.
AND
SUBSIDIARIES

Annual Report

FOR THE YEAR ENDED JANUARY 31, 1963

MERCANTILE STORES COMPANY, INC.

LIST OF OUR STORES

BACON'S (Estab. 1845)

Louisville, Ky.
St. Matthew's
Shively
Jeffersonville, Ind.

LION (Estab. 1857)

Toledo, Ohio
Westgate
Bowling Green
Fremont

CASTNER-KNOTT (Estab. 1898)

Nashville, Tenn.
Green Hills
Donelson
Shelbyville

MACDOUGALL'S (Estab. 1875)

Seattle, Wash.
Wenatchee

Appliance Stores:

West Seattle
Kirkland
Lake City
Greenwood Ave.

CREWS-BEGGS (Estab. 1888)

Pueblo, Colo.

O. J. De LENDRECIES (Estab. 1879)

Fargo, North Dakota

McALPIN'S (Estab. 1852)

Cincinnati, Ohio
Kenwood
Western Hills
Cherry Grove
Middletown

GAYFER'S (Estab. 1879)

Mobile, Ala.
Springdale
Pensacola, Fla.

MONTGOMERY FAIR (Estab. 1868)

Montgomery, Ala.
Eastbrook
Opelika

GLASS BLOCK (Estab. 1887)

Duluth, Minn.

HENNESSY'S (Estab. 1885)

Butte, Mont.
Livingston

PEOPLES (Estab. 1888)

Tacoma, Wash.
Yakima
Lakewood
Port Angeles

JONES (Estab. 1887)

Kansas City, Mo.
Blue Ridge
Troost Ave.
Independence
Prairie Village, Kans.
Pittsburg, Kans.
Muskogee, Okla.

THE RIGHT HOUSE (Estab. 1843)

Hamilton, Ontario, Canada
Brantford
Galt
St. Catharines

JOSLIN'S (Estab. 1873)

Denver, Colo.
Englewood
Lakewood
Greeley
Merchants Park
Boulder
Aurora

ROOT'S (Estab. 1856)

Terre Haute, Ind.
Sullivan
Robinson, Ill.
Paris, Ill.

LAZARUS (Estab. 1889)

Wilkes-Barre, Pa.

J. B. WHITE (Estab. 1874)

Augusta, Ga.
National Hills
(Opened February, 1963)
Aiken, S. C.

J. B. WHITE (Estab. 1874)

Columbia, S. C.
Richland Mall
Downtown Store

•
Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

Cable Address: *Merstore*

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
F. K. BRADLEY
MORGAN A. CASEY
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
GEORGE S. MOORE
R. NELSON SHAW
RALPH S. STILLMAN

OFFICERS

HAROLD W. JOCKERS, *Chairman of the Board*
F. K. BRADLEY, *President*
F. G. KINGSLEY, *Chairman of the
Executive Committee*
R. NELSON SHAW, *Executive Vice-President*
MORGAN A. CASEY, *Vice-President & Treasurer*
CHARLES E. STALLINGS, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
R. S. KIZER, *Controller*
ASHTON HAWKINS, *Secretary*

Stock Transfer Agent

CHEMICAL BANK NEW YORK TRUST COMPANY
20 Pine Street
New York

Registrar of Stock

FIRST NATIONAL CITY BANK
399 Park Avenue
New York

FINANCIAL HIGHLIGHTS

IN BRIEF

	<u>1962</u> (Year ended Jan. 31, 1963)	<u>1961</u> (Year ended Jan. 31, 1962)
Sales	\$183,840,305	\$175,820,970
Sales Increase Percentage	4.6%	3.3%
Profit Before Income Taxes	\$10,297,664	\$10,068,178
Percent to Sales	5.6%	5.7%
Net Profit	\$4,887,664	\$4,818,178
Profit Per Share	\$1.66	\$1.63
Dividends Paid:		
Per Share	\$1.00	\$0.821½
Percentage of Profit Paid Out ..	60%	50%
Cash Flow:		
Amount in Dollars	\$8,083,000	\$7,861,000
Amount Per Share	\$2.74	\$2.67
Book Value Per Share	\$19.41	\$18.75
Working Capital	\$37,290,759	\$35,297,601

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware
April 11, 1963

Fellow Stockholders:

Our Company has just completed its forty-fourth year. This is the annual report covering the year ended January 31, 1963.

The net profit for the year amounted to \$4,887,664. This was a little above the profit of the year before, and was the second best profit in the last twelve years. Earnings per share were \$1.66 compared with \$1.63 for the preceding year. Sales for the year were at a record high for the Company and showed an increase of 4.6% over last year.

Profit

Profit before income taxes amounted to \$10,297,664 which was \$229,486 more than the year before. Net profit after taxes amounted to \$4,887,664 compared with \$4,818,178 for the preceding year.

Profit for the current year was reduced by about 3 cents per share because of the drop in Canadian exchange. A charge against income was made in the amount of \$100,000 to provide for unrealized losses in Canadian exchange. The amount provided represents the approximate decline during the year in the conversion value of our net working capital in Canada.

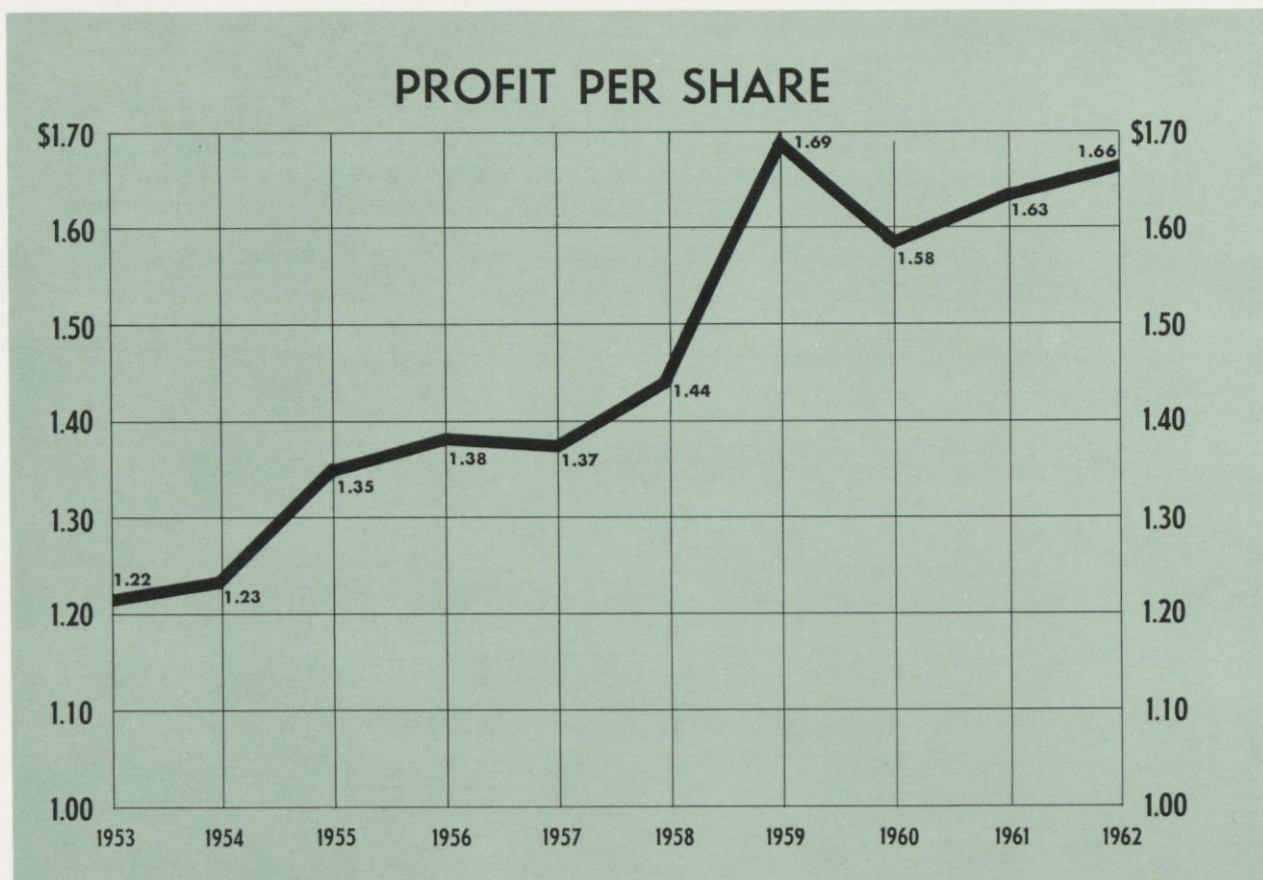
Our depreciation was in no way affected by the new so-called "Depreciation Guidelines". We refer to the booklet released by the Treasury Department in July 1962. There was considerable attendant publicity at that time to the effect that these new Guidelines would liberalize depreciation allowances by large sums. Amounts in the billions were mentioned in newspapers. We made a careful study but were unable to find any advantage for our Company in these new Guidelines.

In the Revenue Act of 1962, Congress granted a modest reduction in Federal income taxes, measured in part by how much a taxpayer invests in certain classes of properties. This has been commonly referred to as the 7% investment credit. For the year under review, the reduction in income taxes from this investment credit amounts to approximately \$26,000 for our Company. Practically none of this has been included in our net profit (no more than \$2,000 has found its way into profit). Divided opinion exists among professional accountants as to the proper way to report this in a corporation's earnings. Some companies are letting the full amount of the credit be reflected in increased earnings; some advocate taking 48% of the credit into income; and some propose to spread the tax reduction over the useful life of the equipment purchased. For this year at least, our Company is following the last named method.

For the year under review, the initial gross profit percentage was up slightly over a year ago, but expenses were a fraction of a percent higher.

The percentage of pre-tax profit to sales was 5.6% for the year under review compared with 5.7% for last year. Without the drop in Canadian exchange the ratio for this year would have been 5.7%—the same as last year.

The profit per share amounted to \$1.66 compared with \$1.63 for the preceding year. The chart below gives the profit per share for the last ten years.



Sales

Sales for the year reached a new high of \$183,840,305. This is the eighth year in a row in which a new sales record has been made. The increase in sales for the year amounted to \$8,019,335 or 4.6%. Sales in comparable stores open both years, showed an increase of 1.6%.

Our business in branch stores is becoming increasingly important each year. At January 31, 1963 we had forty-two branches in operation.

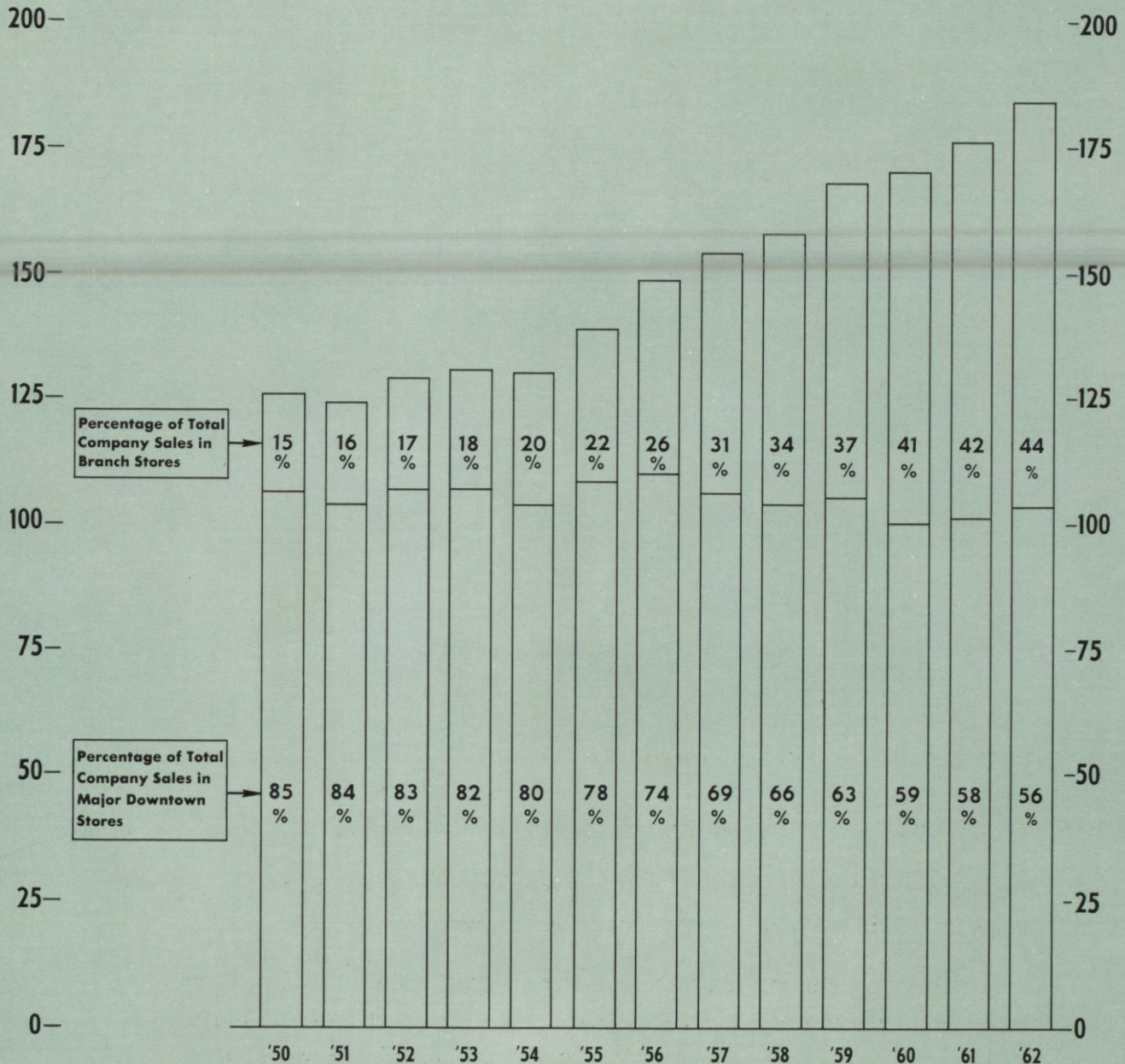
A program of opening new stores was started in 1944. Since then, the Company has added one or more stores in each year. The chart on the following page shows how this part of our business has grown during the last thirteen years. Back in 1950, sales in branch stores represented only 15% of total Company volume.

As shown in the chart, that percentage has increased each year and for the year just closed, 44% of our business was done in branch stores. The dollar volume from branch stores was about \$80,621,000 for the year under review.

GROWTH OF SALES IN BRANCH STORES

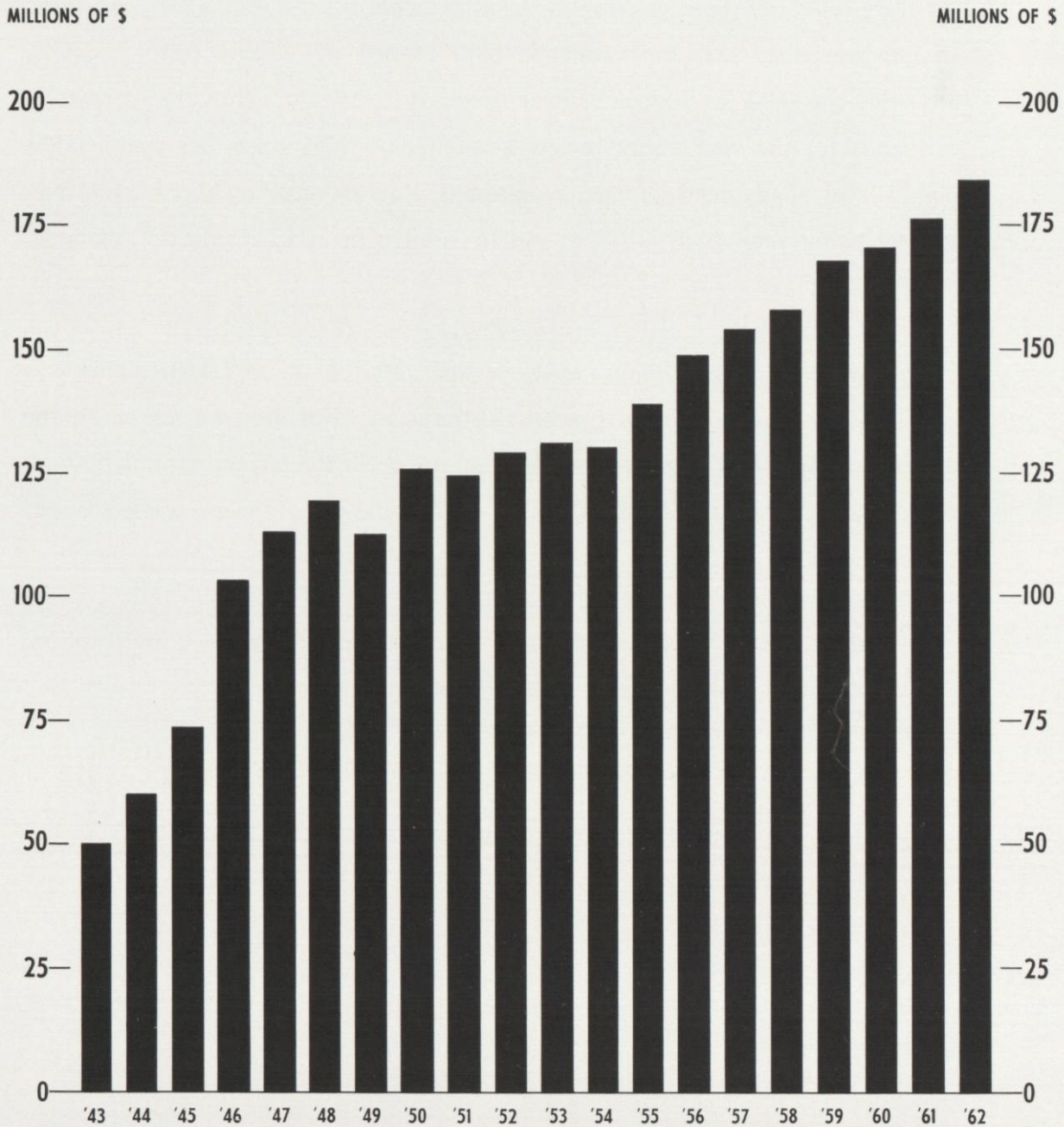
MILLIONS OF \$

MILLIONS OF \$



The growth of sales in the Company for the past twenty years is shown in the chart below:

SALES DURING PAST 20 YEARS



Dividends

Beginning with the March 1962 dividend, the quarterly dividend rate was set at 25 cents per share, making the total payment for the year \$1.00 per share. In the preceding year the dividends paid totaled 82½ cents (after properly adjusting for the 2 for 1 stock split of February 6, 1962). Thus the increase in dividends for the year under review amounted to 17½ cents per share. The higher level of dividend payments represented an increase of about 21% over the preceding year dividends. In dollars, the increase in dividends amounted to \$515,868.

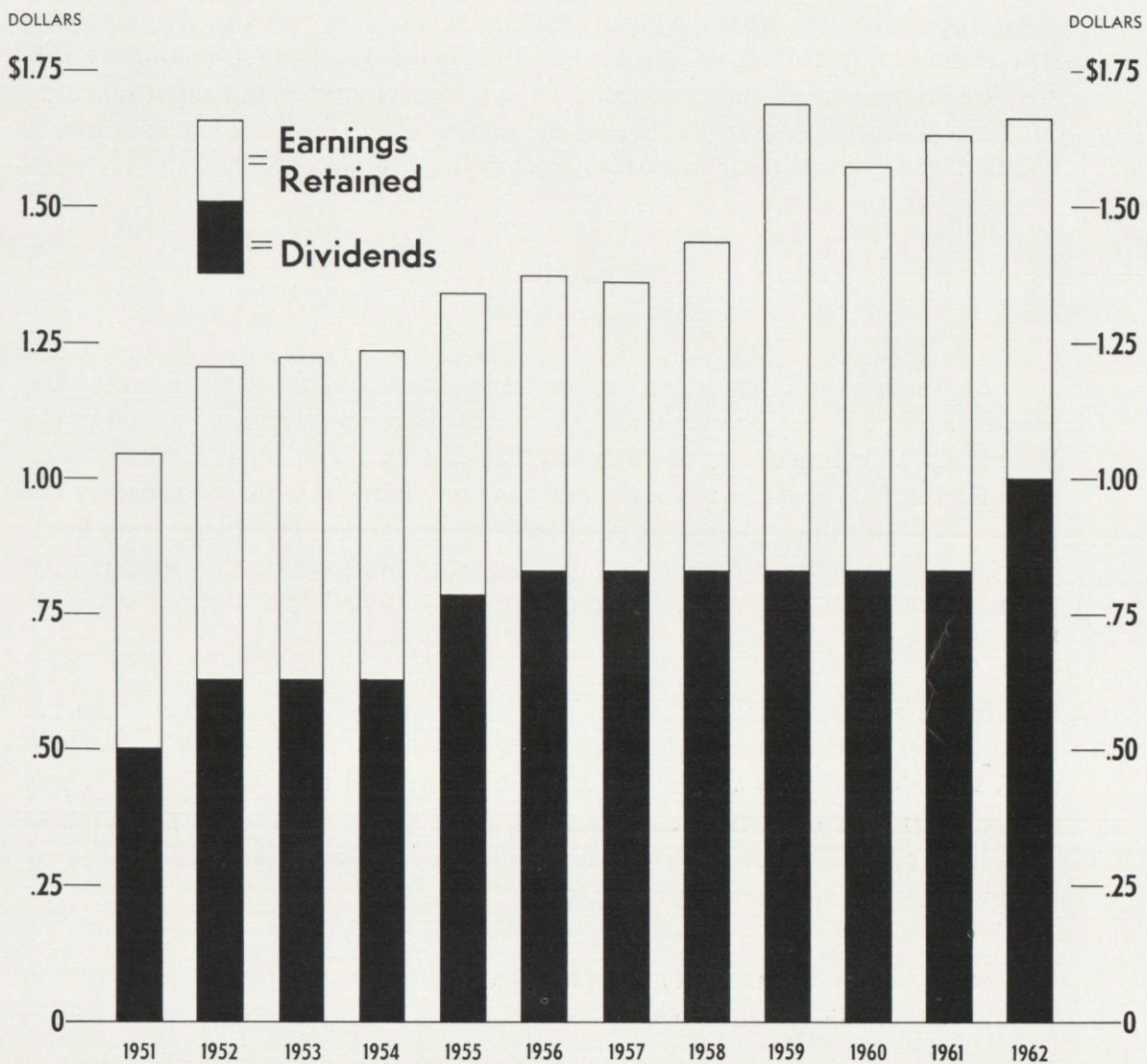
Total dividends paid during 1962 amounted to \$2,947,818. This was equal to about 60% of the net profit for the year. For the past ten years, the dividend pay-out has been about 55%—net profit for the ten years totaled about \$42,582,000, and the dividends paid during those ten years totaled about \$23,333,000.

We have paid dividends for the past twenty-three years without interruption, and the dividend has never been reduced during that time.

Our stockholders numbered 5,185 at January 31, 1963.

The earnings, dividends and retained earnings per share are shown in the chart below for the last twelve years.

EARNINGS, DIVIDENDS, AND RETAINED EARNINGS PER SHARE OF STOCK



Inventory

Merchandise inventories at the end of the year amounted to \$28,926,550. This was higher than a year ago by \$1,855,789. A part of this increase (\$831,402) represented inventories in new stores not open a year ago. The inventories in comparable stores were higher than last year by \$1,053,099 or 3.9%.

During the past year, management has stepped up its emphasis on the importance of keeping complete sizes and colors in stock at all times on the items we sell in volume. If a customer walks into one of our stores and wants to buy, for example, a white Arrow shirt—size 15½—33 and if we are out of that size—we are in danger of losing that customer to a competitor. Conversely, if we repeatedly have the size a given customer wants, it is probable that customer will return to our store again and again. We are, of course, talking about a very simple fundamental of merchandising known to everyone in the retail business. We believe, however, that it is one of the phases of the business which is poorly handled by all stores—our own stores included. We are attacking the problem.

Expansion

In August 1962, we opened a fine large suburban store near Kansas City, Missouri. The store operates under the Jones Store name and is located in the Blue Ridge shopping center of suburban Kansas City. The Jones Store in downtown Kansas City is our largest store and has been in business for over seventy-five years. We built the building for our new store on land under a long term lease. The Blue Ridge store is the largest suburban store we have opened to date. Its business is off to a good start. With this new store, the Jones Store now has six branch stores.

In February 1963, our latest new store opened in suburban Augusta, Georgia. It operates under the name White's and is identified with our downtown White's store in Augusta which has been operating in Augusta for nearly ninety years. Sales of the new store are up to expectations in the short time since it opened. The new suburban store is located in the National Hills shopping center where we have rented the building.

Sales for the first full year of operating in these two stores are estimated at between \$7,000,000 and \$8,000,000.

During the year we also enlarged our deLendrecie's store in Fargo, North Dakota and provided additional parking space.

FUTURE EXPANSION

In September 1963 we expect to open a new suburban store located between Gulfport and Biloxi in Mississippi.

Within a few months from now, work will be completed on a substantial addition to our McAlpin store in the Western Hills suburbs of Cincinnati, Ohio. This will add about 40,000 square feet of space to the store.

Other stores are in the planning stage for opening after 1963. This branch store expansion has proven to be profitable and we expect to continue adding stores. About two new stores a year is roughly how our expansion program is going.

Our Company has been growing steadily. For example, during the last six years our sales were just over a billion dollars. During that time, our profit before taxes was about \$57 million, our net profit about \$27 million. During those six years we paid out \$15 million in dividends and retained about \$12 million. We are ninth in size among the department store companies in the country.

CURRENT NUMBER OF STORES

The stores in operation on January 31, 1963 are listed in the front of this report, consisting of 19 major department stores, 42 branch stores and 4 small appliance stores. (The appliance stores are relatively unimportant—combined volume of the four stores is under \$450,000.)

Additions and Improvements to Physical Properties

Expenditures for land, buildings and fixtures during the year amounted to \$4,883,272, as follows:

For new stores	\$2,786,540
For modernizing existing properties	2,096,732
	<u>\$4,883,272</u>

Included in the \$2,096,732 figure above, is a total of a little over half a million dollars for installing escalators and modernizing the main floor in our downtown Lion store in Toledo, Ohio. We also installed air conditioning in our Glass Block store in Duluth, Minnesota at a cost of about \$200,000.

Depreciation charged to operations for the year amounted to \$2,933,144. This was \$179,916 more than the preceding year. The Company spent \$695,971 during the year for repairs and maintenance, which was charged to operations.

Financing of Expansion

The Company has invested \$49,565,178 in its properties for new stores and improvements during the last ten years, as follows:

<u>Year Ended</u>	<u>Capital Expenditures</u>
January 31, 1954	\$ 1,797,935
January 31, 1955	3,368,916
January 31, 1956	4,723,342
January 31, 1957	9,876,679
January 31, 1958	6,440,533
January 31, 1959	5,945,457
January 31, 1960	4,618,077
January 31, 1961	3,743,852
January 31, 1962	4,167,115
January 31, 1963	4,883,272
	<u>\$49,565,178</u>

About two-thirds of the funds have come from retained earnings and the other one-third from long term borrowings and sale lease-back arrangements, as follows:

From retained earnings	\$33,103,908
An increase in long term debt (ten years ago long term debt was \$5,638,334 and currently it is \$18,616,310—increase in ten years was \$12,977,976)	12,977,976
Proceeds from three sale lease-back arrange- ments	3,483,294
	<u>\$49,565,178</u>

Long Term Debt

The consolidated long term debt of the Company and its subsidiaries amounted to \$18,616,310 at January 31, 1963. The total increased during the year under review by \$1,536,187.

The long term debt was increased by \$2,648,754 in connection with a mortgage placed on the new Blue Ridge store. The regular payments of principal were made during the year, including \$250,000 on the insurance company loan and \$520,489 on the mortgages.

Lease obligations are, of course, not the same as debt, but they are a commitment against a company's resources. Covering all properties where we lease, there are currently 75 leases which extend for more than 3 years. The minimum annual rentals under these leases aggregate approximately \$1,761,000.

Working Capital

Working capital continues to be entirely adequate. The amount of working capital at January 31, 1963 was \$37,290,759. This represented an increase during the year of \$1,993,158.

Short Term Bank Loans

We show short term notes payable to banks on our year-end balance sheet. This was a temporary situation of our own making. No shortage of working capital was involved.

The amount owed to banks at January 31, 1963 was \$9,550,000. This entire amount was paid off on February 28, 1963, and as this report is written, there are no short term bank loans outstanding.

Since 1939 we have had a contractual arrangement with one bank under which we sold customer installment contracts. Last July we decided we would temporarily stop selling these installment contracts to the bank, and instead, borrow short term funds from several banks, to finance this business (in lieu of selling the contracts). This different method of financing produced two material changes in our balance sheet at January 31, 1963. On the asset side, the amount of installment accounts not sold increased to \$17,177,723 (a year ago the figure was \$1,320,566). On the liability side, the notes payable to banks of \$9,550,000 appears among the liabilities (a year ago there were no such loans outstanding).

We have fine relationships of many years standing with five of the leading banks in New York City. Each of these banks keeps open a line of credit for us, but for several years we have made very little use of these lines of credit (our bank borrowings have been relatively small). We deemed it good business to temporarily change over from selling the installment accounts to one bank and, instead, to borrow from all five of the banks. This we did with the full approval of all of the banks involved. In February, 1963 we sold the accumulated installment accounts to the one bank and paid off all of the \$9,550,000 of loans shown on the January 31, 1963 balance sheet. We have resumed our former method of financing installment receivables and expect to go on selling the installment accounts as we have for many years past.

Profit Sharing Plan and Pension Plan

The Company's Profit Sharing Plan has now been in operation for nine years. At January 31, 1963, the amount in the fund at market value, was as follows:

From contributions by our people	\$6,550,408
From Company contributions	2,737,666
(Invested in 128,902 shares of Mercantile Stores stock)	
Total	<u><u>\$9,288,074</u></u>

It is common knowledge that the general level of security prices dropped sharply in the spring of 1962. The security values in the Profit Sharing fund reflected this drop, but prices recovered partially during the latter part of the year. Dividends and interest earned by the fund, combined with the Company's contribution, partially offset the drop in market values during the year. The net result was that the balance accumulated in the fund for a given person, had a net drop of about 6%—before considering new money contributed by that person during the year.

The Company contribution, geared to profits, amounted to \$320,930 (a year ago the amount was \$308,851). During the year, our people contributed a total of \$1,110,090 (a year ago \$1,039,997).

The Company contribution was allocated pro-rata among the people in the Plan, with the result that each participant's account was credited this year with approximately 36 cents for every dollar contributed by the individual (up to 6% of salary). A year ago the comparable figure was 42 cents.

The investment of the funds in the Profit Sharing Plan is in the hands of a large bank which acts as independent Trustee. The contributions from our people are invested in various conservative investments selected by the Trustee. The Company contributions are invested in Mercantile Stores stock. During the year ended January 31, 1963, there were 19,300 shares of Mercantile Stores stock purchased by the Trustee in the open market—with such purchases spaced out over twelve months of the year.

There were 3,412 of our people in the plan on February 1, 1963.

The Pension Plan has been operating for eighteen years. The cash and securities in the hands of the Pension Fund Trustee at January 31, 1963 amounted to \$5,932,828. There were 2,351 of our people covered by this Plan at January 31, 1963. A year ago the number was 2,183. The Company pays the cost of the Pension Plan which amounted to \$293,584 for the year under review, compared with \$272,060 a year ago.

Current Sales Trend

This report is being written in March. The sales for the new year are slightly ahead. February sales were 1.7% ahead of last year. March figures are distorted because this year in March there is one less selling day, compared with March of 1962. In April there is one more selling day this year. Easter falls on April 14th this year—last year on April 22nd. The way Easter falls should not distort the monthly sales comparisons by any large degree.

Cash Flow

The cash flow of our Company increased over last year by a small amount. The cash flow amounted to \$2.74 per share for the year under review. Below are given the cash flow figures for the past nine years:

<u>Year Ended</u>	<u>Net Profit</u>	<u>Depreciation</u>	<u>Deferred Income Tax</u>	<u>Cash Flow</u>
January 31, 1963 ...	\$4,888,000	\$2,933,000	\$262,000	\$8,083,000
January 31, 1962 ...	4,818,000	2,753,000	290,000	7,861,000
January 31, 1961 ...	4,658,000	2,559,000	352,000	7,569,000
January 31, 1960 ...	4,985,000	2,390,000	330,000	7,705,000
January 31, 1959 ...	4,219,000	2,706,000	—	6,925,000
January 31, 1958 ...	3,996,000	2,388,000	—	6,384,000
January 31, 1957 ...	4,027,000	1,973,000	—	6,000,000
January 31, 1956 ...	3,917,000	1,748,000	—	5,665,000
January 31, 1955 ...	3,551,000	1,617,000	—	5,168,000

Some General Comments About Our Business

In the last few years we have put more and more emphasis on fashion merchandise. We are pushing towards the goal of making a large percentage of the customers in our communities think of our stores as fashion leaders. One phase of this is that we are increasing the sale of better goods.

Nationally advertised brand merchandise has become increasingly important with us. Our stores carry and promote Arrow shirts, McGregor sportswear and a host of other brand names which are well known across the country from national advertising. To illustrate our progress in this direction, it was recently announced that our Jones Store in Kansas City, Missouri has been chosen the Brand Name Retailer of the Year for 1962 (in Class I stores of sales above \$10,000,000). This is an annual award given by Brand Names Foundation, Incorporated, an association representing manufacturers and advertising people. It functions in general to foster the promotion of nationally advertised brands identified with manufacturers.

In addition, we have developed a real acceptance in our communities for many of our own brands. Many of these private brands have been advertised by our stores for over twenty-five years. A few examples of our own registered trademark brands are:

Merville hosiery
Royal Knight men's wear
First Lady sheets and blankets
Jean Sutton coats and blouses
Darcel millinery
Sun Fun sportswear
Cromwell paint

Our stores are department stores in the fullest sense of the word. Our stores have the departments usually found in leading department stores across the country—including domestics (piece goods, linens, towels, etc.) handkerchiefs, gloves, hosiery, jewelry, hand bags, toilet goods and other accessory departments; shoes; sportswear, dresses, coats and all kinds of women's and girls' apparel; men's and boys' furnishing and clothing; complete children's departments; home furnishings (rugs, furniture, etc.) and many other departments.

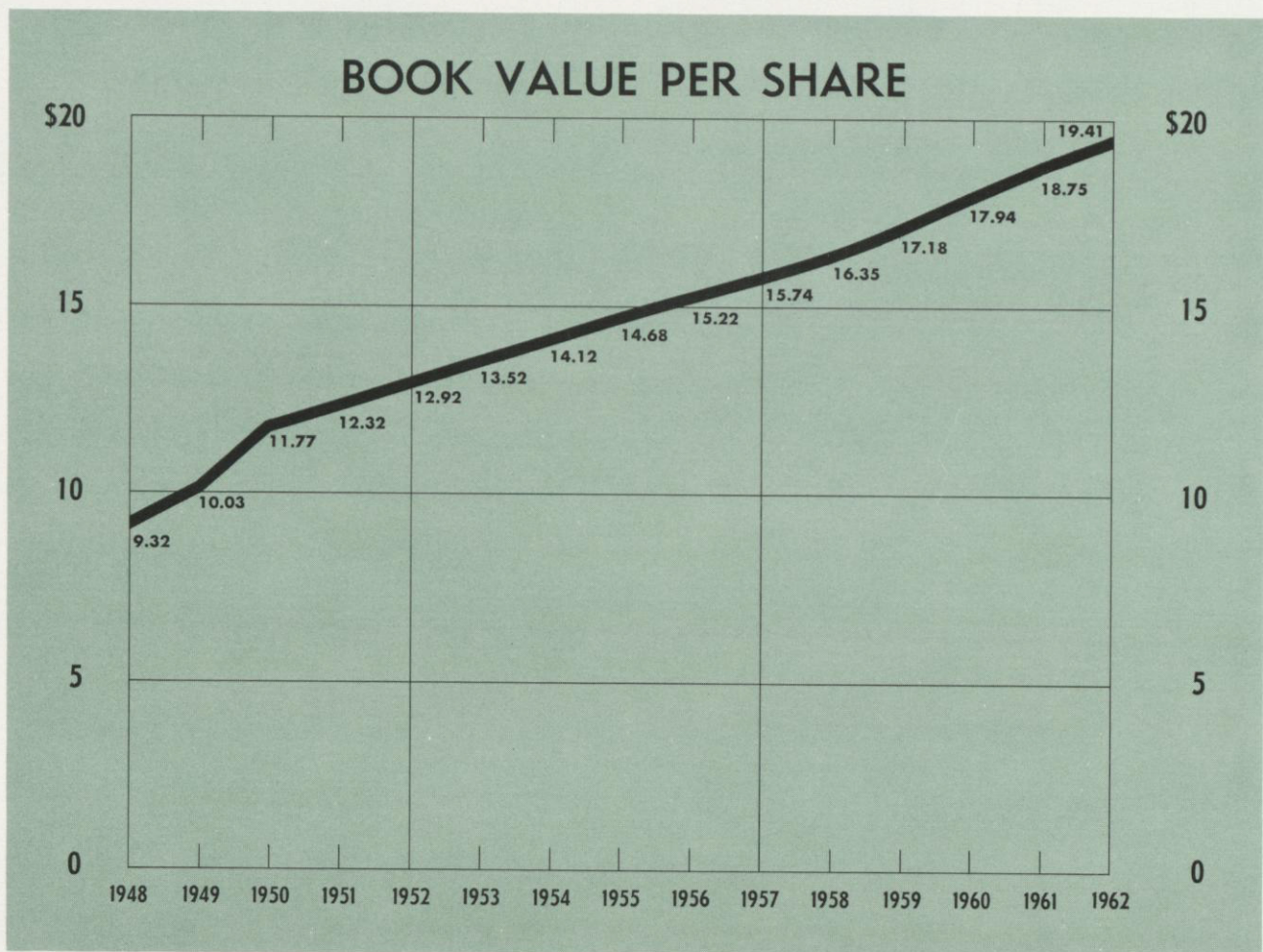
We are increasing our sales of soft goods and de-emphasizing hard goods. Fifteen years ago our business was about 76% in soft goods and 24% in hard goods. Currently about 84% is in soft goods with around 16% in hard goods.

Various

The Company regularly employs about 7,700 people. During peak periods that number increases to over 11,500.

The earnings retained for use in the business (earned surplus) amounted to \$45,656,787 at the end of the year, after an increase during the year of \$1,939,846.

The total book value of the common stock of the Company was \$57,206,202 at January 31, 1963. The book value per share has increased every year without interruption for over twenty years. Below is a chart showing this growth over the last fifteen years. The value at January 31, 1963 was \$19.41 per share.



Pictures of Our Stores

On the next two pages are four pictures of our new Blue Ridge store in suburban Kansas City, Missouri. The store opened last August.

At the top of the first page is a view of accessory departments on the main floor.

Below that is a picture of the entrance to the Beauty Salon which is representative of the Beauty Salons in our various stores. We operate the beauty parlors ourselves (many stores lease them). This business amounts to several million dollars a year and is very profitable.

On the second page of pictures are views of the ready-to-wear division and the china and glassware sections.

Our Blue Ridge Store...



ACCESSORY DEPARTMENTS



ENTRANCE TO BEAUTY SALON

Our Blue Ridge Store...



READY-TO-WEAR DIVISION

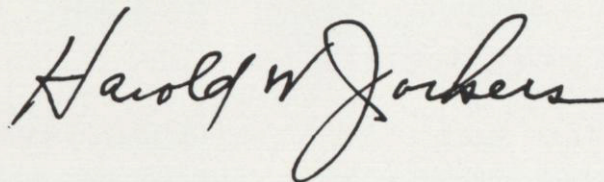


CHINA AND GLASSWARE SECTION

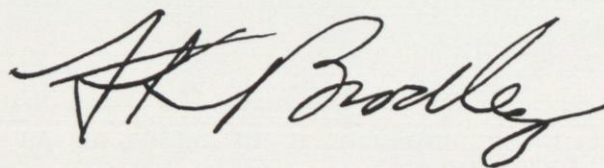
The financial statements for the year are given on succeeding pages, together with the report of our auditors, Arthur Andersen & Co., independent public accountants. Following that is a summary of the highlights of our operations for the past twenty-three years together with a ten year comparison of balance sheets.

It takes teamwork to build a business. The management is very appreciative of the fine sense of loyalty present among our people. We have also found that close cooperation with our resources is of great importance. Our thanks are expressed to the many thousands of vendors who sell us goods and who have worked with us so well.

Respectfully submitted,

A handwritten signature in cursive script, reading "Harold W. Jenkins". The signature is fluid and elegant, with a large, sweeping "H" and a long, trailing "s" at the end.

Chairman of the Board

A handwritten signature in cursive script, reading "A. K. Bradley". The signature is bold and expressive, with a large, prominent "A" and a long, sweeping "B" at the end.

President

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK 5

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1963, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1963, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 29, 1963.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1963

PROFIT AND LOSS

Net sales, including sales of leased departments		\$183,840,305
Cost of goods sold, selling, operating and administrative expenses, including depreciation of \$2,933,144		175,182,926
Operating profit		<u>\$ 8,657,379</u>
Other income (net):		
Carrying charges on installment accounts, miscellaneous net income	\$3,199,757	
Less—Interest expense	1,559,472	1,640,285
Profit before provision for income taxes		<u>\$ 10,297,664</u>
Provision for Income Taxes:		
Federal taxes	\$5,040,000	
State and Canadian taxes	370,000	5,410,000
Net profit for the year		<u><u>\$ 4,887,664</u></u>

CAPITAL SURPLUS

Balance, January 31, 1963 (no change during the year)	<u><u>\$ 6,145,082</u></u>
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EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

Balance, January 31, 1962	\$ 43,716,941
Add:	
Net profit for the year	4,887,664
	<u>\$ 48,604,605</u>
Dividends declared on common stock—\$1.00 per share	2,947,818
Balance, January 31, 1963 (see Note)	<u><u>\$ 45,656,787</u></u>

The note on the accompanying consolidated balance sheet is an integral part of the above statements.

MERCANTILE STO

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:

Cash		\$ 7,677,426
Accounts receivable—		
Customers accounts—		
Regular retail accounts	\$10,219,142	
Installment accounts not sold	17,177,723	
Equity in accounts sold (the uncollected balances of which amounted to \$3,629,886)	865,834	
Other accounts	669,313	
	<u>\$28,932,012</u>	
Less—Reserve for doubtful accounts	1,706,447	27,225,565
Merchandise inventories, priced at the lower of cost or market		28,926,550
U. S. Government and other marketable securities, at cost, approxi- mately equal to market		1,323,150
Unexpired insurance, prepaid rent, etc.		<u>723,221</u>
Total current assets		<u>\$ 65,875,912</u>

Property and Fixtures, at cost:

Land		\$ 6,818,688	
Buildings and building improvements	\$37,409,437		
Less—Accumulated depreciation	14,077,269	23,332,168	
Store fixtures, etc.	<u>\$17,440,493</u>		
Less—Accumulated depreciation	<u>7,825,596</u>	<u>9,614,897</u>	39,765,753
			<u>\$105,641,665</u>

RES COMPANY, INC.

COMPANIES

SHEET — JANUARY 31, 1963

LIABILITIES

Current Liabilities:

Notes payable to banks		\$ 9,550,000
Accounts payable		8,558,712
Accrued taxes (other than Federal income), compensation, rent, etc.		5,721,233
Reserve for Federal income taxes		3,566,764
Current maturities of long-term debt		1,188,444
Total current liabilities		<u>\$ 28,585,153</u>

Long-Term Debt:

Notes payable to an insurance company (see Note)—		
3 $\frac{3}{8}$ % notes, \$250,000 due annually	\$ 1,000,000	
5 $\frac{1}{8}$ % notes, \$333,000 due annually	7,167,000	
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages	<u>10,449,310</u>	18,616,310

Deferred Federal Income Taxes		1,234,000
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Capital Stock and Surplus:

Common stock, par value \$1.83 $\frac{1}{3}$ per share—		
Authorized and issued 2,950,998 shares	\$ 5,410,163	
Less—3,180 shares held in treasury	<u>5,830</u>	
Outstanding 2,947,818 shares	\$ 5,404,333	
Capital surplus	6,145,082	
Earnings retained for use in the business (earned surplus) (see Note)	<u>45,656,787</u>	57,206,202
		<u><u>\$105,641,665</u></u>

NOTE:

The loan agreement relating to the 5 $\frac{1}{8}$ % notes payable to an insurance company provides for the repayment of \$5,000,000 in fifteen annual installments commencing December 1, 1963, with the balance of \$2,500,000 due on December 1, 1978.

Under the terms of the insurance company loan agreements, payment of cash dividends after January 31, 1958, is restricted to 70% of the net income (as defined) after that date. As of January 31, 1963, accumulated undistributed earnings of \$2,716,000 are free of this restriction.

MERCANTILE STO

AND SUBSIDIAR

TWENTY-THREE YEAR COMPARISON OF SALES

<u>Fiscal Year Ended January 31</u>	<u>Net Sales</u>	<u>Profit Before Income Taxes</u>	<u>Income Taxes</u>	<u>Net Profit</u>	<u>Net Profit Per Share (Note A)</u>
1963	\$183,840,305	\$10,297,664	\$5,410,000	\$4,887,664	\$1.66
1962	175,820,970	10,068,178	5,250,000	4,818,178	1.63
1961	170,247,354	9,668,412	5,010,000	4,658,412	1.58
1960	167,799,529	10,375,430	5,390,000	4,985,430	1.69
1959	157,915,790	8,709,061	4,490,000	4,219,061	1.44
1958	153,994,341	8,177,638	4,182,000	3,995,638	1.37
1957	148,773,457	8,086,964	4,060,000	4,026,964	1.38
1956	138,785,704	8,036,717	4,120,000	3,916,717	1.35
1955	130,366,021	6,970,553	3,420,000	3,550,553	1.23
1954	130,882,985	6,933,491	3,410,000	3,523,491	1.22
1953	128,603,624	7,080,850	3,620,000	3,460,850	1.19
1952	124,699,947	6,442,260	3,322,000	3,120,260	1.05
1951	125,427,006	9,397,003	4,290,000	5,107,003	1.72
1950	112,607,776	5,932,129	2,325,000	3,607,129	1.21
1949	119,091,512	8,369,725	3,243,000	5,126,725	1.72
1948	113,012,702	8,444,538	3,286,000	5,158,538	1.73
1947	103,007,184	10,800,760	4,618,000	4,682,760	1.57
1946	74,407,149	5,894,901	4,084,000	1,810,901	.60
1945	59,668,304	6,633,941	4,854,000	1,779,941	.59
1944	50,277,807	4,700,875	3,276,760	1,424,115	.47
1943	41,173,113	3,340,264	2,118,645	1,221,619	.41
1942	34,867,853	1,912,941	812,165	1,100,776	.37
1941	29,509,394	939,991	278,548	661,443	.21

NOTE A:

In the above table wherever "Per Share" figures are given, such figures are all based on the stock after the 2-for-1 split of February, 1962 and all prior year figures have been appropriately restated.

RES COMPANY, INC.

COMPANIES

EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID				
Common				
Per Share (Note A)	Amount	Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Share (Note A)
\$ 1.00	\$2,947,818	—	\$45,656,787	\$19.41
.82½	2,431,950	—	43,716,941	18.75
.82½	2,431,950	—	41,330,713	17.94
.82½	2,423,777	—	39,104,251	17.18
.82½	2,415,029	—	36,542,598	16.35
.82½	2,411,835	—	34,738,566	15.74
.82½	2,402,442	—	31,654,763	15.22
.77½	2,248,742	—	30,030,241	14.68
.62½	1,809,999	—	28,362,266	14.12
.62½	1,809,999	—	26,621,712	13.52
.62½	1,836,849	\$ 4,375	24,908,220	12.92
.50	1,470,404	17,500	22,915,344	12.32
.50	1,471,295	19,240	21,651,863	11.77
.50	1,481,220	22,040	18,035,395	10.03
.50	1,481,220	24,701	15,931,526	9.32
.50	1,481,220	25,676	12,310,722	8.10
.50	1,481,220	25,676	8,659,080	6.86
.12½	370,305	25,676	5,483,216	5.79
.12½	370,305	28,451	4,068,296	5.31
.12½	368,930	36,176	2,687,111	4.84
.12½	361,255	37,133	1,668,102	4.60
.10	290,444	40,187	844,871	4.29
.10	289,612	41,732	74,726	4.03

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

	<i>January 31,</i>			
ASSETS	1963	1962	1961	1960
Cash and Marketable Securities	\$ 9,000,576	\$ 9,832,526	\$ 8,374,386	\$ 7,782,702
Receivables, less Reserve	27,225,565	15,778,321	15,120,028	14,741,032
Merchandise Inventories	28,926,550	27,070,761	26,087,816	27,429,533
Prepaid Expenses	723,221	914,171	1,171,057	1,057,629
TOTAL CURRENT ASSETS	<u>\$ 65,875,912</u>	<u>\$53,595,779</u>	<u>\$50,753,287</u>	<u>\$51,010,896</u>
Fixed Assets (Net)	39,765,753	38,020,878	36,873,849	36,837,080
	<u><u>\$105,641,665</u></u>	<u><u>\$91,616,657</u></u>	<u><u>\$87,627,136</u></u>	<u><u>\$87,847,976</u></u>
LIABILITIES				
Current Liabilities	\$ 28,585,153	\$18,298,178	\$16,214,399	\$18,257,857
Long-Term Debt	18,616,310	17,080,123	17,850,609	18,606,453
Deferred Federal Income Taxes	1,234,000	972,000	682,000	330,000
Deferred Income	—	—	—	—
Capital Stock	5,404,333	5,404,333	5,404,333	5,404,333
Surplus Reserve	—	—	—	—
Surplus	51,801,869	49,862,023	47,475,795	45,249,333
	<u>\$105,641,665</u>	<u>\$91,616,657</u>	<u>\$87,627,136</u>	<u>\$87,847,976</u>
Net Working Capital	<u><u>\$ 37,290,759</u></u>	<u><u>\$35,297,601</u></u>	<u><u>\$34,538,888</u></u>	<u><u>\$32,753,039</u></u>

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,

1959	1958	1957	1956	1955	1954
\$ 8,517,822	\$ 6,910,994	\$ 7,048,251	\$ 7,129,398	\$ 8,928,401	\$ 6,875,318
12,985,902	12,491,754	13,302,895	10,020,053	11,519,124	10,913,772
24,562,675	24,511,645	24,794,615	24,115,864	21,342,757	23,015,160
1,029,165	1,238,460	990,185	886,610	1,213,341	1,086,628
<u>\$47,095,564</u>	<u>\$45,152,853</u>	<u>\$46,135,946</u>	<u>\$42,151,925</u>	<u>\$43,003,623</u>	<u>\$41,890,878</u>
36,651,716	33,562,828	29,794,822	21,892,498	18,996,955	17,353,654
<u>\$83,747,280</u>	<u>\$78,715,681</u>	<u>\$75,930,768</u>	<u>\$64,044,423</u>	<u>\$62,000,578</u>	<u>\$59,244,532</u>
\$21,019,367	\$17,206,139	\$17,652,613	\$15,837,947	\$15,787,889	\$14,051,103
14,828,883	15,447,820	13,892,909	5,562,865	4,993,357	5,611,194
—	—	—	—	—	—
—	—	—	—	336,878	440,335
5,369,591	5,363,872	5,347,188	5,326,105	5,309,330	5,309,330
—	—	1,500,000	1,500,000	1,500,000	1,500,000
<u>42,529,439</u>	<u>40,697,850</u>	<u>37,538,058</u>	<u>35,817,506</u>	<u>34,073,124</u>	<u>32,332,570</u>
<u>\$83,747,280</u>	<u>\$78,715,681</u>	<u>\$75,930,768</u>	<u>\$64,044,423</u>	<u>\$62,000,578</u>	<u>\$59,244,532</u>
<u>\$26,076,197</u>	<u>\$27,946,714</u>	<u>\$28,483,333</u>	<u>\$26,313,978</u>	<u>\$27,215,734</u>	<u>\$27,839,775</u>

